Auditing Procedures Report

	.A. 2 of 1968, as amen	ded.	,		
Local Governr	nent Type Township	Village ✓Other	Local Governme Kalkaska F	nt Name Public Transit Authority	County Kalkaska
Audit Date 9/30/05		Opinion Date 12/6/05		Date Accountant Report Submitted to State: 1/31/06	
accordance	with the Statem	ents of the Governi	mental Accou	overnment and rendered an opinion on finanting Standards Board (GASB) and the Un	niform Reporting Format fo

Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.

We affirm that:

- 1. We have complied with the Bulletin for the Audits of Local Units of Government in Michigan as revised.
- 2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below. 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. Yes Yes **√** No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as Yes ✓ No **√** No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its Yes requirements, or an order issued under the Emergency Municipal Loan Act. 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, Yes **√** No as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. Yes **√** No The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned Yes 7. pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). ✓ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 Yes (MCL 129.241). Yes 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name)						
Anderson & Decl	Anderson & Decker, P.C.					
Street Address			City	State	ZIP	
P.O. Box 746	1 1	Digitally signed by James M. Anderson, CPA -DN: en=James M. Anderson, CPA, e=US.	Roscommon	MI	48653	
Accountant Signature	Ju Ha CA	o=James M. Anderson, P.C.,		Date	•	
	0	email=jma@m33access.com Date: 2006.01.31 16:54:38 -05'00'		1/31/06		

KALKASKA PUBLIC TRANSIT AUTHORITY AUDIT REPORT YEAR ENDED SEPTEMBER 30, 2005

KALKASKA PUBLIC TRANSIT AUTHORITY

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Anderson & Decker, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

245 Lake Street • P.O. Box 746 • Roscommon, MI 48653 (989) 275-8831

INDEPENDENT AUDITORS' REPORT

December 6, 2005

Board of Directors Kalkaska Public Transit Authority Kalkaska, MI 49646

We have audited the accompanying financial statements of the business-type activity and major fund, which collectively comprise the basic financial statements of the Kalkaska Public Transit Authority as of and for the year ended September 30, 2005, as listed in the table of contents. These statements are the responsibility of the Transit's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and major fund of the Kalkaska Public Transit Authority, as of September 30, 2005, and the changes in financial position and cash flows for the year ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2005, on our consideration of the Kalkaska Public Transit Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in conjunction with this report in considering the results of our audit.

Page 2 Board of Directors Kalkaska Public Transit Authority December 6, 2005

The management's discussion and analysis on page 3-7 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Kalkaska Public Transit Authority financial statements. The accompanying financial information listed as supplemental information in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated, in all material respects, in relation to the financial statements, taken as a whole.

ANDERSON & DECKER, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

Using this Annual Report

Our discussion and analysis of the Kalkaska Public Transit Authority's financial performance provides an overview of the Authority's financial activities for the fiscal year ended September 30, 2005. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Revenue, Expenses, and Changes in Net Assets provide information about the activities of the Authority and present a longer-term view of the Authority's finances.

Overview of the Financial Statements

This annual report consists of three parts—Management's Discussion and Analysis (this section), the basic financial statements, and an additional section that presents supplemental information and schedules. The basic financial statements include two kinds of statements that present different views of the Authority:

- . The first two statements are financial statements that provide both long-term and short-term information about the Authority's overall financial status. These statements report information about the Authority, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the Authority's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid. The two statements report the Authority's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities—this is one way to measure the Authority's financial health or position.
- . The remaining statement is a Statement of Cash Flows to demonstrate the activities of the Authority as it relates to cash flows from operating activities, cash flows from noncapital financing activities, cash flows from capital and related financing, and cash flows from investing activities.

Reporting the Transit Authority as a Whole

Government-Wide Statements

The Statement of Net Assets and the Statement of Revenues, Expenses, and change in Net Assets report information about the Authority, as a whole, and about its activities in a way that helps answer the question of whether the Authority, as a whole, is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all of the Authority's assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets regardless of when cash is received and paid.

The two statements, mentioned above, report the Authority's net assets and how they have changed. The reader can think of the Authority's net assets (the difference between assets and liabilities) as one way to measure the Authority's financial health or financial position. Over time, increases or decreases in the Authority's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To access the overall health of the Authority you need to consider additional non-financial factors such as changes in the County's property tax base, the condition of the Authority's vehicles, and changes in the laws related to the operating assistance received from the Federal and State government.

Financial Analysis of the Transit Authority as Whole

The Authority's net assets decreased approximately 5%, or \$150,345, from \$2,861,221 to \$2,710,876 for the year ended September 30, 2005. The net assets and change in net assets are summarized below.

Net Assets

The overall financial position declined in 2005. The unrestricted net assets increased by \$13,166 and the net contributed equity and investment in capital assets decreased by \$163,511. The primary reasons for the reduction was the decrease of \$184,648 in capital grants in 2005 and a net increase in operating expenses of \$61,493.

The net assets as of the year ended September 30, 2005, are as follows:

	2004	2005	<u>Variance</u>	%
Current and Other Assets Capital Assets	\$1,507,950 1,412,758	\$1,515,697 1,249,247	\$ 7,747 (163,511)	0.51 (11.57)
Total Assets	2,920,708	2,764,944	(155,764)	(5.33)
Current Liabilities Noncurrent Liabilities	51,364 8,123	41,090 12,978	(10,274) 4,855	(20.00) 59.77
Total Liabilities	59,487	54,068	(5,419)	<u>(9.11</u>)
Net Assets Contributed equity Invested in Capital Assets Unrestricted	709,993 702,765 1,448,463	634,752 614,495 1,461,629	(75,241) (88,270) 13,166	(10.60) (12.56) 0.91
Total Net Assets	<u>\$2,861,221</u>	<u>\$2,710,876</u>	<u>\$(150,345</u>)	<u>(5.25</u>)

<u>Changes in Net Assets</u>

	2004	2005	<u>Variance</u>	%
Operating Revenue Charges for Services Nonoperating Revenue	\$ 158,510	\$ 169,307	\$ 10,797	6.81
Taxes Levied for Authority State of Michigan Operating Grants Federal Operating Grants County Grants Capital Grants Interest Gain on Sale of Fixed Assets	140,770 285,492 73,030 -0- 288,276 15,315 3,328	146,379 275,007 85,002 9,785 103,628 23,825 3,320	5,609 (10,485) 11,972 9,785 (184,648) 8,510 (8)	3.98 (3.67) 16.39 100.00 (64.05) 55.57 (0.24)
Total Revenue	964,721	816,253	(148,468)	(15.39)
Operating Expense Salaries and Wages Fringe Benefits Depreciation Other	352,158 167,454 268,410 117,083	399,395 175,986 267,139 124,078	47,237 8,532 (1,271) 6,995	13.41 5.09 (0.47) 5.97
Total Operating Expense	905,105	966,598	61,493	6.79
Income (Loss)	59,616	(150,345)	(209,961)	(352.19)
Beginning Net Assets	2,801,605	2,861,221	<u>59,616</u>	2.13
Ending Net Assets	<u>\$2,861,221</u>	<u>\$2,710,876</u>	<u>\$ (150,345</u>)	<u>(5.25</u>)

Capital Asset and Debt Administration

At September 30, 2005, the Authority had 1,249,247 invested in capital assets. This amount represents a net decrease (including additions and deductions) of 11.57% as follows:

			Total Percentage Change
	2004	2005	2004-2005
Capital Assets Not Being Depreciated Land	\$ 10 , 000	<u>\$ 10,000</u>	0.00
Subtotal	10,000	10,000	0.00
Capital Assets Being Depreciated Building Vehicles Equipment	1,179,468 1,288,866 241,069	1,179,468 1,367,881 241,069	0.00 6.13 000
Subtotal	2,709,403	2,788,418	2.92
Total Capital Assets	2,719,403	2,798,418	2.91
Total Accumulated Depreciation	1,306,645	1,549,171	<u> 18.56</u>
Total Net Capital Assets	<u>\$1,412,758</u>	\$1,249,247	(11.57)

Please refer to the notes of the financial statements for more detailed information.

Economic Factors and Next Year's Budget

Kalkaska Public Transit Authority (KPTA) is a county wide transportation system which began operating in October, 1984. It was reorganized under P.A. 196 of Public Acts of 1986 in 1989. KPTA has a five (5) person Board of Directors. Board members are appointed as follows: One (1) per appointed by the Village of Kalkaska Board, One person (1) appointed by the Kalkaska County Township Association two (2) members appointed by the Kalkaska County board of Commissioners, one of which has to be a high school student and the fifth member is appointed by the KPTA Board of Directors.

The KPTA Board of Directors meet the third Thursday of each month at the KPTA building located at 1251 Island Lake Road, Kalkaska, Michigan 49646. At each meeting KPTA business is discussed and necessary action taken. Monthly reports are also reviewed and acted upon.

KPTA is financially strong. We feel that if current funding is reduced or discontinued our current fund balance will allow us to make reasonable cuts in service and expenses. If a total shut down is required, KPTA management feels that it would be a organized reduction allowing employees to seek other employment while no suffering a lost of income for any period of time.

KPTA is seeking Federal and State Funding with FY 2005/2006 which will allow us to proceed with adding a fueling station, a vehicle washing facility and a security fence. Once this funding is obtained KPTA will partner with the State of Michigan Home Land Security, the Village of Kalkaska, Kalkaska County, Kalkaska County Road Commission and other local units of government to study the needs of the area. KPTA fleet of vehicles has been updated on an annual basis and the current vehicles are up to date and in excellent condition.

Annual expenses are and always have been a concern of KPTA management and the Board of Directors. For FY 2005/2006 we have made some changes to management that will reduce the cost of management personnel. Each January our health insurance is up for review and in the recent past we have changed some programs that has been a help in reducing the increase cost of insurance, mainly increase the co-pay that each employment must pay.

KPTA employees continue to received an above average wage and benefit package for this area of the Country. Studies of wages/benefits paid to employee of other transit agencies are reviewed each year. Management completes this study for review of the Board of Directors and a decision is then made for the next fiscal year.

Ronald C. Kea Director

KALKASKA PUBLIC TRANSIT AUTHORITY ENTERPRISE FUND STATEMENT OF NET ASSETS SEPTEMBER 30, 2005

ASSETS

Current Assets: Cash and investments Accounts receivable Grants receivable Prepaid expenses	\$ 1,370,453 24,510 107,752 12,982
Total Current Assets	1,515,697
Property and equipment, less accumulated depreciation	1,249,247
Total Assets	2,764,944
LIABILITIES	
Current Liabilities: Accounts payable Accrued payroll Due to other governmental units	11,190 24,921 4,979
Total Current Liabilities	41,090
Long-Term Liabilities: Compensated absences	12,978
Total Long-Term Liabilities	12,978
NET ASSETS	
Contributed equity Invested in Capital Assets, net of related debt Unrestricted	634,752 614,495 1,461,629
Total Net Assets	<u>\$ 2,710,876</u>

The accompanying notes are an integral part of the financial statements.

KALKASKA PUBLIC TRANSIT AUTHORITY ENTERPRISE FUND STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS YEAR ENDED SEPTEMBER 30, 2005

Operating Revenues Charges for services	
Fare box and special fares Vehicle maintenance	\$ 166,822 2,485
Total operating revenues	<u> 169,307</u>
Operating Expenses Salaries and wages Fringe benefits Services Materials and supplies Utilities Casualty and liability insurance Miscellaneous Depreciation	399,395 175,986 8,872 69,176 18,070 18,409 9,551 267,139
Total operating expenses	966,598
Operating income (loss)	<u>(797,291</u>)
Non-operating Revenues (expenses) Property taxes Federal State County State and Federal capital grants Interest/investment income Gain on sale of fixed assets	146,379 85,002 275,007 9,785 103,628 23,825 3,320
Total non-operating revenues	<u>646,946</u>
Change in Net Assets	(150,345)
Net Assets - October 1, 2004	<u> 2,861,221</u>
Net Assets - September 30, 2005	<u>\$ 2,710,876</u>

The accompanying notes are a integral part of the financial statements.

KALKASKA PUBLIC TRANSIT AUTHORITY ENTERPRISE FUND STATEMENT OF CASH FLOWS YEAR ENDED SEPTEMBER 30, 2005

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets Adjustments to reconcile net income to net	\$ (150,345)
cash flows from operating activities: Depreciation	267,139
Changes in assets and liabilities: Decrease (increase) in accounts receivable Decrease (increase) in taxes receivable Decrease (increase) in due from governmental units Decrease (increase) in prepaid expenses Increase (decrease) in accounts payable Increase (decrease) in accrued payroll Increase (decrease) in due to other governmental units Increase (decrease) in compensated absences	(3,054) 2,435 (39,910) (1,068) 7,457 (7,994) (9,737) 4,855
Net Cash Provided By Operating Activities	69,778
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition of property and equipment	<u>103,628</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(33,850)
Cash and Cash Equivalents at October 1, 2004	1,404,303
Cash and Cash Equivalents at September 30, 2005	<u>\$1,370,453</u>

The accompanying notes are an integral part of the financial statements.

NOTE A - DESCRIPTION OF THE REPORTING ENTITY

The Kalkaska Public Transit Authority was created on October 1, 1987 to provide transit services to the residents of Kalkaska County.

NOTE B - SUMMARY OF <u>SIGNIFICANT ACCOUNTING POLICIES</u>

The accounting policies of Kalkaska Public Transit Authority conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant policies.

Basis of Accounting - The accrual basis of accounting is followed.

<u>Financial Reporting Entity</u> - The Public Transit is required by Public Act 51 of the State of Michigan to have a separate audit performed of its operations. This financial report has been prepared to meet this state requirement.

In compliance with GASB statement 14, these financial statements are included in the County's (oversight unit) Basic Financial Statements as an Enterprise Fund.

<u>Fixed Assets and Depreciation</u> - Fixed assets are stated at cost or fair market value at date of gift. Depreciable fixed assets are depreciated over the estimated useful life of the assets on the straight-line method.

<u>Inventory</u> - Inventories are recorded as expenditures in the year of purchase. The amounts on hand at September 30, 2005 were determined to be immaterial and have therefore not been recorded on the books.

<u>Property Taxes</u> - Property taxes are levied as of December 1 of each year and are due by the last day of the following February. The taxes are collected by the local units of government within the County and are periodically remitted to the Transit through the County during the collection period. The taxes are recognized as revenue in the year in which payment is due.

<u>Contributed Capital</u> - Prior to October 1, 2001, proceeds received from the State and the U.S. Department of Transportation, in accordance with contracts to purchase fixed assets were credited to Contributed Capital and were not recorded as revenue. Depreciation of fixed assets purchased with these funds is charged against Contributed Capital.

<u>Use of Estimates</u> - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE C - VACATION AND SICK LEAVE

Vacation leave is earned in varying amounts depending on the number of years of service of an employee and is made available to the employees monthly. Vacation time does not accumulate from year to year except by mutual agreement between the Transit and the employees.

Sick leave is granted without pay upon application from the employee for illness or injury subject to the employer's right to request medical proof of disability.

The current portion of compensated absences benefits are recorded as expenditures.

NOTE D - CASH AND INVESTMENTS

Deposits are held at Northwestern Bank, Alden State Bank, Forest Area Credit Union and Huntington Bank. Michigan Compiled Laws, Section 129.91 authorizes the Authority to deposit and invest in the accounts of Federally insured banks, credit unions, savings and loan associations; bonds, securities, and other obligations of the United States, or an agency or instrumentality of the United States; United States government of Federal agency obligation repurchase agreements; bankers' acceptance of United States banks, commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The risk disclosures for the Kalkaska Public Transit Authority's deposits, as required by GASB Statement No. 3, are as follows:

<u>Cash</u> Imprest Deposits Insured (FDIC) Deposits - Uninsured	Institution <u>Balance</u> \$ -0- 441,799 423,928	Carrying Balances \$ 100 439,424 423,928
Total Deposits and Imprest Cash	<u>\$ 865,727</u>	<u>\$ 863,452</u>
<pre>Investments Non-Categorized Investment Pool Total Investments</pre>	Market Value \$ 507,001 \$ 507,001	Carrying
Total Cash and Investments	<u>\$ 1,372,728</u>	<u>\$ 1,370,453</u>

The Transit Authority has investments with Allstate Financial Services, LLC in their municipal investment fund, which is an investment pool. The nature of the investment pool does not allow for risk categorization, which is in accordance with GASB Statement No. 3. The investments are considered to be cash equivalents.

NOTE E - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	Balance 10/1/04	<u>Additions</u>	<u>Deductions</u>	Balance <u>9/30/05</u>
Land Building and Improvements Vehicles Shop Equipment Office Equipment	\$ 10,000 1,179,468 1,288,866 133,294 107,775	\$ -0- -0- 103,628 -0- -0-	\$ -0- -0- 24,613 -0- -0-	\$ 10,000 1,179,468 1,367,881 133,294 107,775
Totals	<u>\$2,719,403</u>	<u>\$ 103,628</u>	<u>\$ 24,613</u>	\$ 2,798,418
Accumulated Depreciation	<u>\$1,306,645</u>	<u>\$ 267,139</u>	<u>\$ 24,613</u>	<u>\$ 1,549,171</u>
Net Property and Equipment				<u>\$ 1,249,247</u>

Depreciation expense for fiscal year ending September 30, 2005 was \$267,139.

NOTE F - EMPLOYEE PENSION PLAN

The Kalkaska Public Transit Authority participated in a defined contribution pension plan through December 31, 1999. The plan covered substantially all full-time employees of the Authority. The Authority contributed 7.5% of all employees base compensation to the plan annually. All benefits vested immediately and were credited to each participant's account. As of January 1, 2000 the Authority began participating in a defined benefit retirement plan administered by the Municipal Employees Retirement System (MERS). The entire balance in the previous pension plan of \$156,858 was transferred to the MERS on February 15, 2000. In addition, the Authority contributed \$327,951 to fund the buy in and first year contribution.

The Municipal Employees Retirement System of Michigan (MERS) is a multiple-employer statewide public employee retirement plan created by the State of Michigan to provide retirement, survivor and disability benefits, on a voluntary basis to the State's local government employees in the most efficient and effective manner possible. As such, MERS is a non-profit entity qualified under section 401(a) of the Internal Revenue Code, which has the responsibility of administering the law in accordance with the expressed intent of the Legislature and bears a fiduciary obligation to the State of Michigan, the taxpayers and the public employees who are its beneficiaries.

The passage of HB-5525/Act No. 220, with enactment on May 28, 1996, allowed the members of MERS to vote on and determine if MERS should become an independent public corporation. The vote resulted in approval to become independent of State control and MERS began to operate as an independent public corporation effective August 15, 1996. MERS issues a financial report, available to the public, that includes financial statements and required supplementary information for the system. A copy of the report can be obtained by writing to MERS at 1134 Municipal Way, Lansing, Michigan 49817.

Employees of the Authority age 55 with the 15 or more years of credited service are eligible for retirement. The plan adopted requires a 2% match from each participating employee's compensation.

The normal cost and amortization payment were determined using the entry age normal actuarial funding method. Actuarial assumptions include (a) projected salary and wage increases of 4.5%, (b) a net long-term investment yield rate of 8%, and (c) 1994 Group Annuity Mortality Tables.

Unfunded actuarial accrued liabilities are amortized as a level percent of payroll over 30 years.

NOTE F - EMPLOYEE PENSION PLAN (CONTINUED)

Components of the Actuarial Accrued Liability at December 31, 2004, the last date of Annual Actuarial Valuation, are as follows:

Actuarial Accrued Liability:

Retirees and beneficiaries Currently receiving benefits Non-vested terminated employees	\$	478,060 2,815
Current employee contributions - Including allocated investment income		92,336
Employer financed contributions - Including allocated investment income		604,408
Total Actuarial Accrued Liability	1	,177,619
Net Assets Available for Benefits at Actuarial Value (Market Value \$894,834)		916,726
Unfunded Actuarial Accrued Liability	<u>\$</u>	260,893
Unfunded Actuarial Accrued Liability as a Percent of fiscal 2004 covered payroll		86%

For fiscal year beginning October 1, 2006, the Annual Required Contribution is \$56,364. The Amortization Factor Used was 0.053632.

Trend information of Aggregate Accrued Liabilities follows:

Valuation Date	2004	2003	2002
Accrued Liabilities	\$1,177,619	\$ 971 , 020	\$ 830,796
Valuation Assets	\$ 916,726	\$ 804,484	\$ 679,167
Funded Percent	78%	83%	82%
Unfunded Actuarial Liability	\$ 260 , 893	\$ 166,536	\$ 151,629
Unfunded Actuarial Liability as a			
Percent of Annual Payroll	<u>86%</u>	47%	<u>46%</u>

NOTE G - STATE GRANTS

The Transit has contracted with the State of Michigan for grant funds for operations and equipment. All of the monies that the Public Transit is now eligible to receive have not been disbursed to them as the projects have not been completed. As of September 30, 2005, \$193,217 is still available to the Transit under those grants.

NOTE H - RISK MANAGEMENT / SELF-INSURANCE PROGRAMS

The Transit is covered under the County's participation in risk management pools and self-insurance programs. The Transit reimburses the County annually for its share of the premiums.

The County is exposed to risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The government manages it's risk exposures and provides certain employee benefits through a combination of self-insurance programs, risk management pools and commercial insurance and excess coverage policies. Following is a summary of these self-insurance programs and risk management pool participation

The County participates in the Michigan Municipal Risk Management Authority (MMRMA) for general and automobile liability, motor vehicle physical damage and property damage coverages. The MMRMA was established in January 1980, pursuant to laws of the State of Michigan which authorize local units of government to jointly exercise any power, privilege or authority which each might exercise separately. The purpose of the Authority is to provide cooperative and comprehensive risk financing and risk control services. The MMRMA provides risk management, underwriting, reinsurance and claim review and processing services for all member governments pursuant to its charter.

The government makes annual contributions to MMRMA based on actuarial studies using historical data and insurance industry statistics. These contributions are paid from the general fund (i.E., the Insurance Fund) using premiums paid into it by other funds of the government. Such contributions as received by MMRMA are allocated between its general and member retention funds. Economic resources in the MMRMA's general fund are expended for reinsurance coverage, claim payments and certain general and administrative costs. The County is a state pool member and has deductibles which differ for each type of coverage.

The County has insurance coverage for workers' compensation provided by an independent insurance company which is licensed in the State of Michigan.

NOTE I - CONTRIBUTED CAPITAL

The Contributed Capital equity account represents funds provided by the federal Government and State of Michigan, to the Authority, to purchase buildings, buses and equipment. Depreciation on buildings, buses and equipment purchased with State and Federal Funds is charged against this account. Depreciation of fixed assets purchased with Contributed Capital, for the same period was \$75,241.

Effective for fiscal years beginning after July 2000, and for all subsequent years, all State/Federal Capital Grants are recorded as revenue on the Statement of Revenues, Expenses and Changes in Retained Earnings. For the year ended September 30, 2005 \$103,628 of State/Federal Capital Grants were recorded as revenue.

Contributed Capital balances as of September 30, 2001 have not been restated, and will continue to be amortized over the lives of the related fixed assets, until entirely depleted.



KALKASKA PUBLIC TRANSIT AUTHORITY OPERATING REVENUES YEAR ENDED SEPTEMBER 30, 2005

Operating Revenues

Demand-response (farebox)	\$ 166,822
Maintenance services	2,485
Total Operating Revenues	<u>\$ 169,307</u>

KALKASKA PUBLIC TRANSIT AUTHORITY OPERATING EXPENSES YEAR ENDED SEPTEMBER 30, 2005

Labora	<u>Operations</u>
Labor Operators' salaries and wages Dispatchers' salaries and wages	\$ 126,218 39,386
Fringe Benefits	72,970
Services	5,572
Materials and Supplies Consumed Fuel and lubricants Tires and tubes Other materials and supplies	44,194 2,806 -0-
Utilities	-0-
Casualty and Liability Costs	17,138
Miscellaneous Expenses Advertising Other miscellaneous expenses	-0- -0-
Depreciation & Amortization	<u>261,672</u>
Total Expenses	\$ 569 , 956

<u>Ma</u> i	<u>intenance</u>	General <u>nistration</u>	 Total System
\$	67 , 270 -0-	\$ 166,521 -0-	\$ 360,009 39,386
	29,641	73,375	175 , 986
	-0-	3,300	8,872
	-0- -0- 22,176	-0- -0- -0-	44,194 2,806 22,176
	-0-	18,070	18,070
	-0-	1,271	18,409
	-0- -0-	6,359 3,192	6,359 3,192
	2,245	 3,222	 267,139
\$	121,332	\$ 275,310	\$ 966,598

KALKASKA PUBLIC TRANSIT AUTHORITY NONOPERATING REVENUES YEAR ENDED SEPTEMBER 30, 2005

Local Operating Grants	
Tax Levy	\$ 146,379
County Contributions	<u>9,785</u>
Subtotal Local Operating Grants	<u>156,164</u>
State of Michigan Operating Grants	
Formula Operating Assistance (Act 51)	<u>275,007</u>
Subtotal State of Michigan Operating Grants	275,007
Federal Operating Grants	
U.S. DOT Operating Grant - Section 5311	<u>85,002</u>
Subtotal Federal Operating Grants	85,002
Capital Grant Revenues	103,628
Interest Income	23,825
Gain (Loss) on Sale of Property	3,320
Total Nonoperating Revenues	<u>\$ 646,946</u>

KALKASKA PUBLIC TRANSIT AUTHORITY SCHEDULE OF CONTRIBUTED EQUITY YEAR ENDED SEPTEMBER 30, 2005

	<u>Federal</u>	State	Total
Balance, October 1, 2004	\$ 514,786	\$ 195,207	\$ 709,993
Deduct: Depreciation on assets purchased from contributed equity	<u>56,056</u>	<u>19,185</u>	<u>75,241</u>
Balance, September 30, 2005	\$ 458 , 730	<u>\$ 176,022</u>	<u>\$ 634,752</u>

KALKASKA PUBLIC TRANSIT AUTHORITY CAPITAL CONTRACTS YEAR ENDED SEPTEMBER 30, 2005

Grantor: Michigan Department of Transportation

	Grant Award or <u>Carry Over</u>	<u>Earned</u>	Amount <u>Remaining</u>
#2002-0057/Z2	\$ 34,545	\$ 34,545	\$ -0-
#2002-0057/Z4	192,745	-0-	192,745
#2002-0057/Z5	30,219	30,219	-0-
#2002-0057/Z7	11,441	10,969	472
#2002-0057/Z6	<u>27,895</u>	<u>27,895</u>	
Totals	\$ 296,845	\$ 103,628	<u>\$ 193,217</u>

KALKASKA PUBLIC TRANSIT AUTHORITY EXPENSES BY CONTRACT AND GENERAL OPERATIONS YEAR ENDED SEPTEMBER 30, 2005

	<u>Operations</u>	Total
Labor Fringe benefits Services Materials and supplies Utilities Casualty and liability Miscellaneous Depreciation and Amortization	\$ 399,395 175,986 8,872 69,176 18,070 18,409 9,551 267,139	\$ 399,395 175,986 8,872 69,176 18,070 18,409 9,551 267,139
Total	966,598	966,598
Less Ineligible Expenses and Project Revenues	237,554	237,554
Total Eligible Expenses	\$ 729,044	\$ 729,044

KALKASKA PUBLIC TRANSIT AUTHORITY NET ELIGIBLE COSTS COMPUTATIONS OF GENERAL OPERATIONS YEAR ENDED SEPTEMBER 30, 2005

	2002-0057/Z9 Federal <u>Section 5311</u>	State Operating <u>Assistance</u>
Expenses Labor Fringe benefits Services Materials & supplies Utilities Casualty & liability Miscellaneous Depreciation	\$ 399,395 175,986 8,872 69,176 18,070 18,409 9,551 267,139	\$ 399,395 175,986 8,872 69,176 18,070 18,409 9,551 267,139
Total Expense	966,598	966,598
Less Ineligible Expenses Depreciation Audit Fee MASSTRANS Dues Non Transportation Revenues	231,758 3,300 11 2,485	231,758 -0- 11
Total Ineligible Expense and Project Revenue	237,554	234,254
Net Eligible Expenses	<u>\$ 729,044</u>	<u>\$ 732,344</u>
Maximum Section 5311 Reimbursement (12.40) (Not to exceed \$85,002)	<u>\$ 85,002</u>	
State Operating Assistance		<u>\$ 281,495</u>

Federal Section 5311 expenses are only those expenses incurred in providing service to non-urbanized areas. The State Operating Assistance is computed at 38.437574823% of the current eligible expenses for the year ended September 30, 2005.

KALKASKA PUBLIC TRANSIT AUTHORITY DETAIL OF INELIGIBLE EXPENSES AND REVENUES SEPTEMBER 30, 2005

<u>Depreciation</u>

Depreciation accrued by public operators is ineligible according to UMTA C 9050, 1A, Page V-4. Depreciation of \$35,381 was expensed on items purchased with local funds which is considered an eligible expense.

Non Transportation Revenues

The Transit Authority provides maintenance services to several departments of Kalkaska County. The revenue from these services was considered ineligible for Section 5311 purposes.

<u>Annual Audit Fees</u>

Any Transit Agency that expends less than \$500,000 in federal funds must subtract out the cost of the annual audit as an ineligible expense under Section 5311. Therefore, \$3,300 has been treated as an ineligible for Section 5311 purposes.

MASSTRANS Dues

98% of MASSTRANS dues are eligible for reimbursement for State Operating Assistance and Section 5311 for the year ending September 30, 2005. Therefore \$11 is treated as ineligible.



Anderson & Decker, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

245 Lake Street • P.O. Box 746 • Roscommon, MI 48653
(989) 275-8831

December 6, 2005

Board of Directors Kalkaska Public Transit Authority Kalkaska, MI 49646

As required by the Michigan Department of Transportation, schedules of mileage, vehicle hours and number of passengers transported for the twelve months ended September 30, 2005, follows. This supplemental information was not audited by us and accordingly, we do not express an opinion on it. However, we have reviewed the compilation methods for mileage and passenger data and found them reliable.

Respectfully submitted,

ANDERSON & DECKER, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

KALKASKA PUBLIC TRANSIT AUTHORITY MILEAGE DATA, VEHICLE HOURS AND PASSENGERS (UNAUDITED) YEAR ENDED SEPTEMBER 30, 2005

DEMAND RESPONSE	Public Transportation <u>Mileage</u>	Vehicle <u>Hours</u>	Regular <u>Passengers</u>
1st Quarter 2nd Quarter 3rd Quarter 4th Quarter	58,248 57,797 54,150 39,742	3,026 2,996 2,745 	34,519 34,659 27,414 14,782
TOTAL OPERATIONS	<u>209,937</u>	<u>11,237</u>	111,374

See Auditors' Disclaimer on Preceding Page.

SCHEDULES 9 AND 10

Senior <u>Passengers</u>	Handicapper <u>Passengers</u>	Senior Handicapper <u>Passengers</u>
876 1,376 1,194 <u>818</u>	1,904 2,020 2,080 2,156	941 690 771 <u>924</u>
4,264	8,160	3,326



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

December 6, 2005

Board of Directors Kalkaska Public Transit Authority Kalkaska, MI 49646

Dear Board:

We have audited the financial statements of the Kalkaska Public Transit Authority for the year ended September 30, 2005, and have issued our report thereon dated December 6, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

<u>Internal Control Over Financial Reporting</u>

In planning and performing our audit, we considered Kalkaska Public Transit Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Page 2 Board of Directors Kalkaska Public Transit Authority December 6, 2005

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Kalkaska Public Transit Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended for the information of the audit committee, management, and Board of Directors, and is not intended to be, and should not be used by anyone other than these specified parties.

ANDERSON & DECKER, P.C.

CERTIFIED PUBLIC ACCOUNTANTS